KEEGAN, WERLIN & PABIAN, LLP

ATTORNEYS AT LAW

265 FRANKLIN STREET

BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:

(617) 951-1354

(617) 951-0586

September 2, 2004

Hand Delivery

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: KeySpan Energy Delivery New England, D.T.E. 04-62

Dear Ms. Cottrell

Enclosed for filing are an original and thirteen (13) copies of KeySpan Energy Delivery New England's Post-Hearing Comments in the above-referenced proceeding.

Thank you for your attention to this matter.

Very truly yours,

Cheryl M. Kimball
(SHA)

Cheryl M. Kimball

Enclosure

cc: Service List

KeySpan Energy Delivery New England	)))	D.T.E. 04-62

POST-HEARING COMMENTS OF KEYSPAN ENERGY DELIVERY

Submitted by:

Cheryl M. Kimball
Keegan, Werlin & Pabian, LLP
265 Franklin Street
Boston, MA 02110
(617) 951-1400

Richard A. Visconti, Esq.
General Counsel
KeySpan Energy Delivery New England
52 Second Avenue
Waltham, MA 02451
(781) 466-5138

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

KeySpan Energy Delivery New England	)	D.T.E. 04-62

POST-HEARING COMMENTS OF KEYSPAN ENERGY DELIVERY

I. INTRODUCTION

On June 17, 2004, KeySpan Energy Delivery New England[1] ("KeySpan" or the "Company") filed a petition with the Department of Telecommunications and Energy (the "Department") pursuant to 220 C.M.R. 5.00 et seq. and 220 C.M.R. 6.00 et seq. for approval of a consolidated Cost of Gas Adjustment Clause, a consolidated Local Distribution Adjustment Clause, consolidated Distribution Terms and Conditions and standardized rate tariff formats for all customer classes.

The Department docketed the filing as D.T.E. 04-62. Pursuant to notice duly issued, the Department conducted a public hearing at its offices on July 13, 2004 and an evidentiary hearing on August 26, 2004. The Office of the Attorney General and the Low-Income Parties are intervenors in this proceeding. In support of the petition, the Company offered the testimony of Elizabeth Danehy Arangio, Director of Gas Supply Planning, and Ann E. Leary, Manager of Rates. The evidentiary record consists of 103 exhibits and seven responses to record requests. In accordance with the procedural schedule, the Company hereby offers post-hearing comments in support of its petition.

---

1 In Massachusetts, KeySpan Energy Delivery New England includes the operations of Boston Gas Company, Colonial Gas Company and Essex Gas Company, each doing business as KeySpan Energy Delivery New England.

As discussed below, the record in this proceeding shows that the Company's proposal will serve the public interest and ensure that the price charged to customers for gas service appropriately captures the range of costs and benefits associated with the consolidated resource portfolio. Accordingly, the Department should approve the Company's request to consolidate the CGAC, LDAC and Distribution Terms and Conditions and to standardize the format for the Company's rate tariffs.

II. DESCRIPTION OF THE COMPANY'S PROPOSAL

In this filing, the Company is proposing to establish a Cost of Gas Adjustment ("CGA") factor that fairly and appropriately attributes gas costs among the Massachusetts customers who are served by the Company's consolidated resource portfolio. The Company is also proposing to establish a simplified and uniform tariff structure that includes: (1) a consolidated CGA Clause; (2) a consolidated Local Distribution Adjustment Clause ("LDAC"); (3) a consolidated set of Delivery Terms and Conditions ("Terms and Conditions"); and (4) standardized rate tariffs under a unified numbering system (Exhibit KED/EDA-1, at 3).

A. Consolidation of the CGA

The CGA is designed to recover the costs that the Company incurs to purchase, transport, store and finance gas on behalf of customers. The primary components of the CGA are: (1) fixed "demand" charges associated with transportation and underground storage contracts that the Company holds to transport purchased gas to the Company's citygates, and to store gas purchased during the summer for use during the winter; (2) the cost of gas "commodity" purchases; (3) local production and storage costs; (4) working capital costs relating to the use of the Company's available funds to finance gas purchases; (5) gas acquisition costs, which are the test year level of Company operations and maintenance expenses associated with procuring and managing the resource portfolio; (6) inventory financing costs; (7) capacity credits; and (8) bad-debt expense relating to uncollectible gas costs (Exhibit KED/AEL-1, at 4-5).

In this proceeding, KeySpan is proposing to establish a consolidated CGA that would be calculated by pooling the total demand, commodity and local production and storage costs associated with the consolidated resource portfolio. The Company's proposal for consolidating specific components of the CGA is as follows:

CGA Component	**Company Proposal**
Demand Costs (Transportation and Storage)	Pool Costs
Local Production and Storage Costs	Pool Costs
Commodity Costs	Pool Costs
Capacity Credits (Off-System Sales/Capacity Release)	Pool Credits
Supplier Refunds	Pool Costs
Gas Acquisition Costs	Pool costs[2]
Working Capital	Standardize using weighted cost of debt and equity from D.T.E. 03-40
Bad-Debt Expense	No consolidation; maintain LDC-specific methodology
Reconciliation Factors	Consolidation after first year, except for bad-debt reconciliation

Exhibit KED/AEL-1, at 5.

The consolidation is necessary because, prior to the mergers, the CGAs for each LDC were calculated based on the contract demand charges, commodity purchases and local production and storage costs incurred by each system on a standalone basis and the

---

2 During the course of the proceeding, KeySpan indicated that it could treat gas acquisition and costs as a cost category not subject to consolidation, as is the case with bad-debt. See, Exhibit DTE-1-42.

terms of separate cost of gas adjustment clauses. This calculation has remained unchanged since the mergers. This means that the CGA currently charged to the customers of each LDC within the KeySpan system (i.e., Boston Gas, Colonial Gas and Essex Gas) is calculated independently based on historical portfolio costs and individual formulas. Thus, when the Company prepares the CGA filings for each LDC, the Company sums the demand charges for the pipeline and storage contracts held by each company and charges that amount to the customers of the company holding those contracts. Similarly, the Company sums the costs for local production and storage by company and charges the total for each company to the customers of that company (Exhibit KED/AEL-1, at 5-6).

For commodity costs, the Company employs a slightly different process to develop the CGA filing. The Company purchases gas supply for all three of the LDCs in the aggregate. As a result, the per-unit price of pipeline supplies, underground storage supplies and peaking supplies is generally the same for each of the three service areas. However, as currently calculated for CGA purposes, commodity costs differ slightly among the companies because the mix of supplies allocated to each company is a function of the different set of contractual entitlements within its resource portfolio (id. at 6). This means that, for purposes of the CGA calculation, the proportion of pipeline and underground storage and peaking supplies available to each company differs. Therefore, the Company currently develops the commodity cost for each company by taking the system-wide commodity cost for each type of resource (i.e., transportation, underground storage and peaking resources) and applying it to the contractual entitlements held in each company's name. If the individual company does not hold the contract entitlements equal to the amount of gas used to meet the company's sendout requirements, the Company makes up the difference by imputing a blended cost representing the mix of resources available to the system (id. at 7).

Consolidation of the CGA is necessary because purchasing and dispatch decisions are now made from an overall system perspective with the resources previously held by the standalone companies used interchangeably within the KeySpan system to meet customer requirements (Exhibit KED/EDA-1, at 7-8; see also Exhibit DTE-1-31). In this framework, resources are used on the basis of efficiency and operational availability without regard to the particular ownership of the contract entitlements comprising the portfolio. In fact, there are no resources within the portfolio that are used exclusively for the benefit of a discrete set of customers within the KeySpan service territory. Therefore, it is no longer appropriate to charge the costs of individual resources to particular groups of customers within the overall system (Exhibit KED/AEL-1, at 8).

Accordingly, the Company is proposing to establish a consolidated CGA factor that would be calculated in the same way that the CGA for Boston Gas is currently calculated with the methodology simply applied to the system as a whole. Specifically, on a seasonal basis, the Company would pool the costs incurred for (1) contract demand charges, (2) commodity purchases, and (3) local production and storage facilities (id.). The Company would then develop a factor to recover the costs incurred in each pooled category and would charge that same factor to all KeySpan customers, with the exception that the rates for Colonial Gas would be converted from therms to ccfs for billing purposes.

The Company is proposing to consolidate the working capital factor because working capital is a function of purchased gas costs, and the Company has proposed to consolidate purchased gas costs for the purposes of calculating the CGA (id. at 9). The Company is proposing to apply the weighted cost of capital (equity and debt) approved in the recent base-rate proceeding for Boston Gas (D.T.E. 03-40), which is a weighted cost of equity of 9.08 percent and weighted cost of debt of 3.86 percent (id.). These rates are lower than the cost of capital and cost of debt rates approved and currently used in the CGA filings for Colonial Gas and Essex Gas. Specifically, to calculate the working capital factor, Colonial Gas currently applies a weighted cost of capital of 10.24 percent and a weighted cost of debt of 4.85 percent, while Essex Gas applies a weighted cost of capital of 10.67 percent and a weighted cost of debt of 3.84 percent (id.). The weighted cost of capital and debt approved by the Department in D.T.E. 03-40 is also appropriate because it reflects the Company's current capital structure and capital costs, while the Colonial and Essex capital structures and capital costs reflect conditions at the time of their last rate cases, 1993 (based on 1992 test year) and 1996 (based on a 1995 test year), respectively.

The Company is also proposing to consolidate the reconciliation factors after the first year of consolidation. In the first year, it will be necessary to maintain individual reconciliation factors to ensure the recovery of pre-existing under and over-collections of gas costs. However, in the second year following consolidation, the consolidated factors will have been in effect, and therefore, it will be appropriate to recover under and over-collections on a system-wide basis for all components except bad-debt expense (id. at 10).

The Company is not proposing to consolidate the calculation of bad-debt expense, which is a separate element of the CGA. Bad-debt expense is calculated and recovered differently in each service area based on determinations made in prior base-rate proceedings. The Company proposes to maintain these differences until rates are consolidated across the KeySpan service territory. Also, the Company will need to retain individual reconciliation adjustment factors for bad debt to ensure the recovery of under and over-collections of the bad-debt component (Exhibit KED/AEL-1. at 10).

To demonstrate the impact of consolidating the CGA, the Company presented the components that supported the calculations of the CGAs that were filed with the Department for each service area in September 2003 to be effective November 1, 2003 through October 31, 2004 (Exhibit KED/AEL-2). As shown therein, the current methodology for calculating the annual GAF resulted in a GAF of $0.7238 per therm for Boston Gas, $0.6537 per therm for Essex Gas and $0.7129 per therm for Colonial Gas. By comparison, the consolidated annual GAF under the Company's proposal would have been $0.7168 per therm. The Company further differentiated the annual CGA factor into peak and off-peak factors (Exhibit KED/AEL-2).

The Company's proposed consolidated CGAC tariff is based on the Boston Gas CGAC tariff, with certain changes implemented to update and refine the terms of the clause (Exhibit KED/AEL-1, at 15). In general, the CGAC tariffs under which the individual companies operate are similar in fashion and encompass similar components. However, Colonial Gas employs a base/supplemental CGA structure and Boston Gas and Essex Gas employ a peak/off-peak structure (id.). This will change under the proposed consolidation of the CGA. On the Essex system, class-specific CGA factors will be eliminated. In addition, each company has a different reconciliation period (i.e., Colonial's base/supplemental reconciliation periods end in June, the Essex peak/off-peak reconciliation periods end in October and the Boston Gas reconciliation period ends in April for the peak season and October for the off peak season) (Exhibit KED/AEL-1, at 15). This will also change under the proposed consolidation of the CGA. Other differences simply result from differing historical practices and methodologies used by the pre-merger companies, but would have no significant impact on customers were these components to change (id. at 15-16).

B. Consolidation of the LDAC

The Company's proposed consolidated LDAC tariff is also based on the Boston Gas LDAC tariff, with certain changes implemented to update and refine the terms of the clause. For administrative and uniformity purposes, the Company is proposing to consolidate certain components of the LDAC. The Company's proposal on specific components is as follows:

LDAC Component	Company Proposal
KeySpan Demand-Side Management Program Costs	Eliminate allocation of existing program costs among three service areas
FERC-ordered transition costs	Pool Costs
Unbundling costs	Pool Costs
Interruptible Transportation Margins	Pool Credits
Imbalance penalties	Pool Credits
Environmental Remediation Costs	No consolidation
Lost Base Revenues/Exogenous Costs	No consolidation
Pension and PBOP factors	No consolidation
Reconciliation Factors	Consolidation after first year, except for company-specific reconciliations for those components not consolidated

Exhibit KED/AEL-1, at 17-18.

With respect to the DSM and unbundling components, the Company is currently incurring costs on a Company-wide, consolidated basis and then allocating those costs among the companies for purposes of calculating the LDAC. For example, in KeySpan Energy Delivery New England, D.T.E. 02-31 (2002), the Department approved a consolidated DSM program, with a consolidated budget, for the KeySpan service area, and therefore, the Company incurs costs to administer only one program. To recover these costs through the LDAC, the Company allocates the costs among the three service areas based on the number of customers in each service area (Exhibit KED/AEL-1, at 18). However, with a consolidated LDAC tariff, the Company would simply calculate a uniform factor that would be charged to all customers. With respect to the interruptible transportation margins, FERC-ordered transition costs, and supplier imbalance penalties, these components will apply across the entire combined portfolio.

In general, the currently effective LDAC tariffs operate in a similar fashion and encompass similar components (Exhibit KED/AEL-1, at 18-19). Differences between the LDAC tariffs generally reflect differing historical practices and methodologies used by the pre-merger companies and would have no significant impact on customers were these components to change.

There are no major differences between the existing LDAC tariffs and the proposed consolidated LDAC tariff because the LDAC was largely standardized among the companies (id. at 19). The only difference in the calculated rates are that the Boston Gas formula used in the consolidated LDAC tariff includes a component for costs associated with pensions and post-retirement benefits other than pensions ("PBOP"), and the Colonial Gas formula includes a component for lost margins associated with past DSM programs and one for exogenous costs as defined in Eastern-Colonial Acquisition, D.T.E. 98-128 (1999). These differences are maintained in the consolidated LDAC tariff (id.).

C. Consolidation of Distribution Terms and Conditions

The Company's Distribution Terms and Conditions were standardized on a state-wide basis as a result of the Department's directives in Gas Unbundling, D.T.E. 98-32 (1999) (Exhibit KED/AEL-1, at 20). The consolidated KeySpan Distribution Terms and Conditions proposed herein incorporate any differences that currently exist among the Boston Gas, Essex Gas and Colonial Gas systems. To consolidate the Distribution Terms and Conditions, the Company started with the Terms and Conditions for Boston Gas and included and identified those sections that were unique to Essex Gas and Colonial Gas (id. at 21).

These changes will not have any impact on the Company's transportation program or the capacity assignment methodology. Currently, the Company assigns capacity to marketers based on whether the marketers' aggregation pool is located on the Tennessee system or the Algonquin system. The price charged to sales customers through the CGA is not a factor in the assignment process. Accordingly, with the new CGA and Distribution Terms and Conditions in place, the Company will continue to assign capacity in the way that the program now operates.

D. Standardization of the Rate Tariffs

The rate tariffs currently in place for the three companies composing the KeySpan system in Massachusetts are in the same format as the tariffs in place prior to the mergers (Exhibit KED/AEL-1, at 19-20). In this filing, the Company has developed a set of rate tariffs that standardize language to the extent possible without making substantive changes to the availability clauses or rate structures. For example, the Company has maintained the customer rate classes and associated rates for each company, but has standardized the language for the availability clauses to the maximum extent possible. In doing so, the Company has generally adopted the rate tariff presentation previously used for Boston Gas (id. at 20).

In terms of tariff numbering, the Company is proposing to establish a system that standardizes the numbering while maintaining the distinction among the companies (id.). Specifically, the Boston Gas rate tariffs will be numbered starting with 100, the Essex Gas rate tariffs will be numbered starting with 200, the Colonial Gas (Lowell Division) starting with 300, and Colonial Gas (Cape Cod) starting with 400. For example, the Residential Non Heating R-1 Rate Classification is M.D.T.E. 101, 201, 301, and 401 for Boston, Essex, Lowell and Cape Cod, respectively (id.).

IV. THE COMPANY'S PROPOSAL SERVES THE PUBLIC INTEREST AND WILL RESULT IN JUST AND REASONABLE RATES.

The Company's main objective in making this filing is to ensure that all customers receiving gas service on the Company's system bear appropriate responsibility for the costs the system incurs to serve them (Exhibit KED/EDA-1, at 5). In that regard, the Company's proposal is designed to ensure that both the costs and benefits associated with the consolidated resource portfolio are passed through to customers in a fair and equitable manner and consistent with the way that those resources are procured and used on behalf of customers (id.). To achieve this objective, the current structure must be changed, and therefore, the Department should approve the Company's request to consolidate the CGA (and associated tariff components).

The KeySpan service territory is comprised of the former service territories of Boston Gas, Colonial Gas and Essex Gas. Prior to merging with Eastern Enterprises and then KeySpan Corporation, each of these local distribution companies ("LDC") had its own CGA, which was calculated on the basis of the costs that the LDC had incurred on a standalone basis to serve its customers. Specifically, each pre-existing CGA structure was designed to recover the demand charges associated with the transportation and underground storage contracts held by the LDC as a standalone entity, its company-specific costs of local production and storage and the commodity costs incurred for gas acquired on behalf of customers (id. at 6). Because the commodity costs incurred by each LDC depend upon the type of capacity resources held in the standalone resource portfolio, the cost of gas historically included in each CGA was a function of the pricing indices in place in the respective production and market areas from which the individual LDC was sourcing gas supply. Thus, the cost of gas historically charged to customers of Boston Gas, Colonial Gas and Essex Gas stems from the composition of the particular resource portfolio held by each LDC as a standalone entity (id.).

However, a critical component of the mergers was the opportunity to consolidate and re-optimize the gas-supply resources held by Essex and Colonial with those of Boston Gas to achieve operational efficiencies and costs savings for the benefit of all customers. Therefore, following the mergers with Essex Gas and Colonial Gas, significant efforts were undertaken to restructure the gas-resource portfolio to serve customers across the Boston Gas/Colonial Gas/Essex Gas service territory, which is now owned by KeySpan (Exhibit KED/EDA-1, at 6-7; Exhibit DTE-1-2). Through these efforts, the Company was able to achieve a number of operational and contractual synergies that have a direct benefit for customers. These benefits include discrete and quantifiable savings associated with the elimination of resource contracts as well as cost savings resulting from operational synergies that are less susceptible to quantification and attribution (Exhibit KED/EDA-1, at 7).

The end result is that the Company's resource planning and management activities are now fully integrated and employ a single forecasting, procurement, supply-management and operations process (id.). In addition, the Company has taken a series of steps over the past five years to terminate contracts, combine common contracts, and restructure contractual arrangements to take better advantage of complementary resources within the consolidated portfolio. Thus, the existing resource portfolio is streamlined and carefully tailored to meet the requirements of all areas comprising the KeySpan system. Purchasing and dispatch decisions are now made from an overall system perspective with the resources previously held by the standalone companies used interchangeably within the KeySpan system to meet customer requirements (id.). In this framework, resources are used on the basis of price and operational efficiency without regard to the particular ownership of the contract entitlements comprising the portfolio.

Consequently, the Company's efforts have created a mismatch between (1) the costs recovered from customers through the CGA, which are primarily based on the ownership of resource contracts; and (2) the costs and benefits associated with the provision of gas service using the restructured portfolio (Exhibit KED/EDA-1, at 8, 27-34; Exhibit AG-1-8). The Company's proposal corrects the mismatch by pooling the demand charges, local production and storage costs and commodity charges associated with the consolidated portfolio and establishing a uniform CGA for KeySpan customers.

The pooling of costs for the three service areas to create a system-wide CGA is no different from the pooling of costs that currently occurs on each individual system to create the company-specific CGA (Exhibit KED/EDA at 8). Moreover, the pooling of costs accurately reflects the way that the gas-supply resources are pooled and managed on a combined basis to meet customer needs across the three service areas. As a result, the Company's approach aligns resource use with cost recovery, thereby ensuring that the price charged to customers appropriately distributes the costs and benefits associated with the consolidated resource portfolio (id.).

With the implementation of the proposed consolidated CGA factor, Colonial and Essex customers would pay a greater share of the costs associated with the resource portfolio, and Boston Gas customers would experience cost reductions (Exhibit KED/EDA-1, at 22; see Exhibit DTE-1-40). This result is appropriate because the reality is that the resources held in the Boston Gas resource portfolio are being used to meet the needs of Colonial and Essex customers; however, the current structure of the CGAs does not enable the Company to charge the appropriate costs to Colonial and Essex customers for the use of those resources (id.).

Moreover, there are operational synergies that have resulted in large part from the flexibility the Company has to utilize: (1) displacement; (2) operational balancing agreements ("OBAs"); and (3) on-system peaking resources. These tools provide a level of flexibility to the consolidated resource portfolio, which enables the Company to reduce costs for customers on a continuing basis (Exhibit KED/EDA-1, at 27-28). However, it is virtually impossible to quantify and attribute the costs and benefits resulting from the use of these tools to specific service areas, particularly where the tools are used in combination to achieve the least cost dispatch for customers (id. at 28). The proposed consolidated CGA distributes costs and benefits equally among all customers served by the KeySpan resource portfolio, and therefore, is a fair and equitable price signal.

V. CONCLUSION

The record in this proceeding shows that the public interest will be served, and that just and reasonable rates will result, from the implementation of a consolidated Cost of Gas Adjustment Clause, a consolidated Local Distribution Adjustment Clause, consolidated Distribution Terms and Conditions and standardized rate tariff formats for all customer classes. Therefore, for the reasons stated above, the Department should:

ORDER: That KeySpan's proposal to consolidate the CGAC, LDAC and Distribution Terms and Conditions and to standardize the format for the Company's rate tariffs is approved.

ORDER: That tariffs M.D.T.E. Nos. 101 through 114, 201 through 213, 301 through 313 and 401 through 414, as well as the consolidated Cost of Gas Adjustment Clause (M.D.T.E. No. 1), Local Distribution Adjustment Clause (M.D.T.E. No. 2) and Distribution Terms and Conditions (M.D.T.E. No. 3), are approved.

Respectfully submitted,

KEYSPAN ENERGY DELIVERY NEW ENGLAND

By its attorneys,

Cheryl M. Kimball
SHA
Cheryl M. Kimball
Keegan, Werlin & Pabian, LLP
265 Franklin Street
Boston, MA 02110
(617) 951-1400

Richard A. Visconti
(SHA)
Richard A. Visconti, Esq.
General Counsel
KeySpan Energy Delivery New England
52 Second Avenue
Waltham, MA 02451
(781) 466-5138

Dated: September 2, 2004